

May 16, 1945.

CHAIRMAN ECCLES:

In accordance with the discussion yesterday, there is attached a brief nontechnical statement of the effects which would follow the repeal of the entire Thomas Amendment.

*Howard N. Hackley*

## The Thomas Amendment and the Situation If It Were Repealed

The "Thomas Amendment" to the AAA Act of May 12, 1933, contained three main provisions --

1. It directed the Secretary of the Treasury to enter into agreements with the Federal Reserve Banks and the Board of Governors whereby the Reserve Banks would conduct open market operations in obligations of the United States and purchase directly Treasury bills and other Government obligations up to an aggregate amount of \$3,000,000,000;

2. It authorized the issuance of United States notes or "greenbacks" up to \$3,000,000,000;

3. It authorized the President to fix the weight of the gold dollar and also to fix the weight of the silver dollar at a fixed ratio in relation to the gold dollar; and to provide for the unlimited coinage of gold and silver at the ratio so fixed. These powers of the President, which were conferred by paragraph (2) of subsection (b) of the Amendment, have now expired by the terms of the law.

The Thomas Amendment has been amended twice, by the Joint Resolution of June 5, 1933, and by the Gold Reserve Act of January 30, 1934.

The Joint Resolution added the provision which states that all coins and currencies of the United States shall be legal tender.

The Gold Reserve Act added to the Thomas Amendment provisions authorizing the President to issue silver certificates against silver tendered for coinage and against silver bullion in the Treasury, to prescribe charges for the coinage of silver, and to reduce the weight of the silver dollar and of subsidiary coins. There is some doubt as to whether these provisions are still in effect, since they were related to the paragraph of the Thomas Amendment authorizing the President to fix the weight of the gold dollar and, under the terms of that paragraph, all of the powers specified therein expired on June 30, 1943.

Even if the provisions of the Thomas Amendment regarding the issuance of silver certificates are still in effect, they have probably been superseded in effect by the provisions of the Silver Purchase Act of June 19, 1934. That Act declared it to be the policy of the United States that silver should be maintained at one-fourth of the value of the monetary stocks of the United States and directed the Secretary of the Treasury to purchase silver to the extent necessary to maintain

this proportion. The Act prohibited the Secretary of the Treasury from purchasing any silver at a price in excess of its monetary value and from purchasing domestic silver at a price in excess of 50 cents a fine ounce. The Act further authorized the Secretary to issue silver certificates against silver purchased by him.

In view of the provisions of the Silver Purchase Act, the repeal of the Thomas Amendment, without also repealing the Silver Purchase Act, probably would have little effect upon the silver purchase provisions or the maintenance of bimetallism.

Accordingly, since the "greenback" provision would be repealed by the existing provisions of the reserve ratio bill, the only important effects of the repeal of the entire Thomas Amendment would be to remove from the law the provision authorizing agreements by the Federal Reserve Banks to purchase Government obligations and the provision declaring all coins and currencies of the United States to be legal tender. While there would be some other minor effects, these would be the principal ones. The first-mentioned provision probably is not very important; but obviously the provision relating to legal tender should not be repealed.

5-16-45

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date May 19, 1945.

To Chairmen Eccles

Subject: Statement with respect  
to proposed repeal of the Thomas  
Amendment

From Mr. Hackley

In accordance with your request, I have prepared the attached statement of objections to the repeal of the Thomas Amendment after obtaining comments and suggestions from Mr. Vest, Mr. Thomas, and Mr. Robinson.

With respect to the price at which silver may be purchased by the Secretary of the Treasury, the Silver Purchase Act contained a provision that no purchases of silver "situated" in the continental United States on May 1, 1934, could be made at a price in excess of 50 cents a fine ounce. I have learned, however, that this provision was intended merely to prohibit the holding for speculative purposes of silver already mined in this country or imported from abroad on May 1, 1934. It gave notice that such holders could not receive more than 50 cents an ounce for such silver. It did not apply, however, to silver subsequently mined.

Accordingly, the only limitation upon the price that the Secretary of the Treasury may pay for domestic or foreign silver mined or imported after May 1, 1934, is the monetary value of such silver or approximately \$1.29 an ounce. I understand that the present regulations of the Secretary of the Treasury provide for payment of 71.11 cents an ounce.

*Howard H. Hackley*

Attachment

## EFFECT OF REPEAL OF THE THOMAS AMENDMENT

The pending bill, H.R. 3000, would repeal those provisions of the so-called Thomas Amendment of May 12, 1933, which relate to the issuance of United States notes. A proposed amendment to the bill to repeal the entire Thomas Amendment would have the effect of eliminating from the law the following additional provisions of that statute:

1. Provisions authorizing the President to issue silver certificates against silver tendered for coinage and against silver bullion in the Treasury; to prescribe charges for the coinage of silver; and to reduce the weight of the silver dollar and subsidiary coins.
2. A provision declaring all coins and currencies of the United States to be legal tender.
3. A provision authorizing the Board of Governors of the Federal Reserve System, with the approval of the Secretary of the Treasury, to require the Federal Reserve Banks to take such action as may be necessary to prevent undue credit expansion.

Such an amendment to the pending bill would be most ill-advised for the following reasons --

1. The repeal of the provision relating to legal tender seems clearly undesirable. As the result of its repeal, Federal Reserve notes, which constitute more than 80 per cent of outstanding currency, would no longer be "legal tender".
2. If the object of the proposed amendment is to eliminate bimetallism and repeal provisions for the purchase of silver and the issuance of silver certificates, it is obvious that that objective would not be obtained by the repeal of the Thomas Amendment. The provisions which it contains for the issuance of silver certificates and the coinage of silver are substantially duplicated by the provisions of the Silver Purchase Act, which presumably would not be affected by the proposed amendment. That Act declares it to be the policy of the United States that silver shall be maintained as one-fourth of the monetary stocks of the United States. To this end, it authorizes the Secretary of the Treasury to purchase silver, at home or abroad, and to issue silver certificates against the silver so purchased. The Act further declares that all silver certificates shall be legal tender. The President, under the Act, is empowered to require the delivery of all silver to the mints for coinage into standard silver dollars.

3. While the proposed amendment would thus have little or no legal effect upon the monetary status of silver, action taken by Congress with respect to the amendment might be misconstrued as an expression of the judgment of Congress with respect to the silver question. It would not be an expression of Congress on this point, since the provisions of the Silver Purchase Act which give broad authority in this matter would not be affected.

4. The mere introduction of the proposed amendment would raise a controversial question as to the monetary status of silver, a matter which is not related to the main purposes of the pending bill and might seriously impair the legislative prospects of the bill. The Senate has already passed a bill substantially the same as H.R. 3000. If, however, an amendment is adopted in the House, and particularly such a controversial amendment as this one, the bill would have to go back to the Senate and in all probability to conference. This might well delay final action beyond June 30, 1945, when the existing authority for the use of Government securities as collateral for Federal Reserve notes will expire.

5. With respect to the provision of the Thomas Amendment authorizing action to prevent undue credit expansion, it would seem most unwise, at a time when control of credit is particularly important, to repeal any provision of law which may be of assistance in meeting inflationary forces likely to develop.

For the reasons stated above, it is clear that an amendment undertaking to repeal all of the provisions of the Thomas Amendment not only would not accomplish its seeming objective with respect to bimetallism but would have very harmful effects in eliminating other provisions of the law which obviously should be retained.